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The Financial Reconstruction of China

By

CHANG YING-HUA

Director General of the Bureau of Currency

Sometime Salt Commissioner of the Szechuan and Ho Tung Districts;
Vice-Minister of Finance and Chief of Salt Administration,
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The Financial Reconstruction of China.

Students of Chinese financial conditions are almost unanimous in asserting that the unification of the country and the disbandment of troops are fundamental prerequisites to a sound system of financial reorganization. Those advancing this theory are of the opinion that the present financial difficulties and well-nigh impossible situation are the evil but natural consequences of the practice of the Provinces in withholding national revenues and appropriating them for their own purposes. When the provincial authorities not only retain revenues which should properly go to support the Central Government but, to make matters even worse and more hopeless, continually vie with each other in pressing the Government for funds, it is but natural that the national treasury should be depleted and defaults in the payment of loan obligations should take place one after another. As long as this practice continues, it is said that no effective remedy can be found to relieve the situation.

While all this may be true, yet, from another point of view, the unification of the country and the disbandment of troops are themselves dependent upon the straightening out of the financial difficulties and complications. In other words, while the present financial distress cannot be relieved without the unification of the country and the disbandment of troops, yet, unification and disbandment cannot be successfully carried out without a sound financial system having been first evolved. It thus appears that the financial problem is more important and requires even more urgent attention than the problem of the unification of the country and the disbandment of troops.

To find a remedy we must first understand the situation. We shall, therefore, start by taking a general survey of present conditions by tabulating the receipts and expenditures of the national Government during the three years 1919, 1920 and 1921, taking their averages and comparing them with the estimated present financial requirements of the Central Government.

TABLE I.

**Receipts and Disbursements of the Customs Revenue
for the Years 1919-1921.**

Designations	1919	1920	1921	Average for the 3 years
Amount Brought Forward from the Previous Year	\$ 6,670,000	\$ 3,730,000	\$ 9,280,000	\$ 6,566,000
Revenue Collected for the Year	73,760,000	78,820,000	93,140,000	81,907,000
Total Amount of Receipts	80,439,000	82,550,000	102,439,000	88,473,000.
Amount Paid Out During the Year	76,700,000	73,270,000	97,664,000	82,545,000
Balance	\$ 3,730,000	\$ 9,280,000	\$ 4,775,000	\$ 5,928,000

Explanatory Note—Under disbursements are included the Administrative Expenses for the Maritime and Native Customs, amounts appropriated for the Loan Service, the Boxer Indemnity, the Reorganization Loan, the Famine Relief Fund, Administrative Expenses and special appropriations as approved. The balance, when left distributed among the different Customs Stations, is of course, split into only small amounts here and there.

TABLE II.

**Receipts and Disbursements of the Salt Revenue
for the Years 1919-1921.**

Designations	1919	1920	1921	Average for the 3 years
Amount Brought Forward from the Previous Year	\$16,270,000	\$ 9,930,000	\$11,160,000	\$12,450,000
Amount Collected for the Year	80,820,000	79,290,000	78,220,000	79,443,000
Total Amount of Receipts	97,090,000	89,210,000	89,380,000	91,893,000
Amount Paid Out During the Year	87,160,000	78,050,000	76,200,000	80,470,000
Balance	\$ 9,930,000	\$11,160,000	\$13,180,000	\$11,423,000

Explanatory Note—Under disbursements are included the Sinking Fund for the Domestic and Foreign Loans charged upon the Revenue, Administrative Expenses paid, Provincial subsidies and amounts appropriated by the South-western Provinces.

TABLE III.

**Receipts and Disbursements of the Wine and Tobacco Taxes
for the Years 1919-1921.**

Designations	1919	1920	1921	Average for the 3 years
Revenue Collected	\$14,381,000	\$14,950,000	\$14,660,000	\$14,664,000
Administrative Expenses	1,938,000	1,938,000	1,938,000	1,938,000
Amount Appropri- ated for Provincial Uses	6,590,000	6,248,000	7,228,000	6,690,000
Amount Forwarded to Peking	\$ 5,853,000	\$ 6,764,000	\$ 5,494,000	\$ 6,036,000

TABLE IV.

Receipts and Disbursements of Stamp Duty Revenue
for the Years 1919-1921.

Designations	1919	1920	1921	Average for the 3 years
Revenue Collected	\$2,727,000	\$2,995,000	\$3,114,000	\$2,955,000
Administrative Expenses	342,000	343,000	497,000	394,000
Amount Appropriated for Provincial Uses				1,881,000
Amount Forwarded to Peking				\$ 680,000

Explanatory Note—The Provinces of Fengtien, Kirin, Chekiang, Hupeh, Shensi, Sinkiang, etc. are all supposed to remit a portion of the revenue collected to the Central Government. These sums, amounting to about \$1,000,000 have, however, all been withheld by the Provincial authorities for local uses.

TABLE V.

Receipts and Disbursements of Land Tax Revenue
for the Years 1919-1921.

Designations	1919	1920	1921	Average for the 3 years
Approximate Amount Collected	\$80,090,000	\$80,090,000	\$80,090,000	\$80,090,000
Remission on Account of Flood, Famine, etc.				1,480,000
Amount Retained by Southwestern Provinces				16,990,000
Approximate Net Balance from Annual Collection				\$61,620,000

Explanatory Note—The balance is not at present available to the Central Government, but can only be considered as amount appropriated for Provincial uses.

TABLE VI.

Receipts and Disbursements of the Peking Octroi
for the Years 1919-1921.

Designations	1916	1920	1921	Average for the 3 years
Amount Collected	\$1,615,000	\$1,889,000	\$1,993,000	\$1,842,000
Expenses for the Year	339,000	401,000	402,000	371,000
Balance	\$1,306,900	\$1,488,000	\$1,591,000	\$1,461,000

TABLE VII.

General Statement of Revenue Collected and Disbursements Made During the Years 1919-1921.

Designations	Receipts	Disbursements	Balance
Customs Revenue	\$88,473,000	\$82,545,000	\$ 5,928,000
Salt Revenue	91,893,000	91,893,000	
Land Tax	80,090,000	80,090,000	
Regular and Miscellaneous Duties	50,000,000	50,000,000	
Peking Octroi	1,842,000	381,000	1,461,000
Tobacco and Wine Taxes	14,664,000	8,628,000	6,036,000
Stamp Tax Revenue	2,955,000	2,275,000	680,000
Mining Duty'	256,000		256,000
Income from Public Properties	3,000		3,000
Income Tax	14,000		14,000
Total	\$330,190,000	\$315,812,000	\$14,378,000
Monthly Average			\$ 1,198,000

TABLE VIII.

Present Financial Situation of the Central Government.

(Receipts and Disbursements Each Month)

Designations	Receipts	Disbursements	Deficit
Revenue Receivable Each Month	\$ 1,198,000		
Police and Troops in and near the Metropolitan Area		\$ 644,000	
Expenses Incurred Directly under Ministry of War		3,583,000	
Expenses for Chihli Troops		739,000	
Expenses for Other Troops		279,000	
Expenses for Office of Inspector-General of Chihli, Shantung, Honan.		70,000	
Expenses for the Navy		550,000	
Total Expenses for Troops and Police		5,885,000	
Total Expenses for Troops and Police		\$ 5,885,000	
Expenses for Parliament		421,000	
Expenses for the Cabinet and its Subsidiary Offices		146,000	
Expenses for Organizations under the Central Government		83,000	

TABLE VIII—*Continued.*

Designations	Receipts	Disbursements	Deficit
Expenses for the Ministry of Foreign Affairs and Organizations Under Its Control		283,000	
Expenses for the Ministry of Interior and Organizations Under Its Control		102,000	
Expenses for the Ministry of Finance and Organizations Under Its Control		185,000	
Expenses for the Ministry of War and Organizations Under Its Control		450,000	
Expenses for the Ministry of Navy and Organizations Under Its Control		73,000	
Expenses for the Ministry of Justice and Organizations Under Its Control		195,000	
Expenses for the Ministry of Education and Organizations Under Its Control		294,000	
Expenses for the Ministry of Agriculture and Commerce, and Organizations Under Its Control		106,600	
Expenses for Association for Supervision of the Railway in Vladivostok		1,400	
Expenses for Bureau of Mongolian and Tibetan Affairs		105,000	

TABLE VIII—*Continued.*

Designations	Receipts	Disbursements	Deficit
Pension for the Ching Household		507,000	
Total Expenses for Administrative Purposes		\$ 3,120,000	
Grand Total of Military and Administrative Expenses		\$ 9,005,000	\$ 7,807,000

A general perusal of the above figures reveals the fact that while the annual revenue of the Government does not exceed \$14,370,000 the total expenditure amounts to about \$9,000,000 per month or \$108,000,000 per year. The Government will thus have to face a deficit of about \$7,800,000 per month or \$93,600,000 per year, which is not far from being an accurate description of the financial plight of the Government.

In addition to this heavy monthly and annual deficit the Central Government has a further debt in the form of arrears of payment for administrative, military and police expenses which have been steadily accumulating since 1915. Although the Government is at present unable to give immediate attention to this item, yet it has to be taken into consideration when we aim at getting a comprehensive view of the present financial situation.

The arrears of payment which the Government owes to the different organizations are given below in tabulated form.

TABLE IX.

Accumulated Arrears of Payment for Military and Administrative Expenses.

Section A: Military Expenses.

Designations	3rd Year (1914)	4th Year (1915)	5th Year (1916)	6th Year (1917)	7th Year (1918)	8th Year (1919)	9th Year (1920)	10th Year (1921)	11th Year (1922)	Total
Army			\$ 65,000	\$ 349,000		\$22,406,000	\$17,860,000	\$27,933,000	\$21,027,000	\$89,641,000
Navy				120,000		212,000	2,150,000	3,828,000	1,359,000	7,669,000
Arsenals				47,000		1,003,000	1,033,000	2,655,000	1,770,000	6,508,000
War Participation Bureau				502,000	\$ 407,000	1,378,000	914,000			3,201,000
Office of Inspector-General of Chili-Shantung, Honan								170,000	432,000	1,142,000
Office of Inspector-General of Three Eastern Provinces					390,000		859,000	3,470,000	351,000	5,070,000
Yi Troops					64,000	607,000	553,000	899,000	1,057,000	3,180,000
An Wu Troops				10,000	230,000	50,000	329,000	1,244,000	357,000	2,220,000
Subsidies for Troops in the Provinces and Special Areas		\$ 170,000		190,000	406,000	880,000	810,000	1,370,000	540,000	4,366,000
Extra Allowances for Various Divisions		175,000		12,000	26,000	156,000	298,000	493,000	177,000	1,327,000
Extraordinary Expenses of the Navy						34,000	474,000	168,000	180,000	856,000
Extraordinary Expenses of the Army	\$150,000	1,749,000	1,309,000	377,000	36,000	882,000	1,324,000	1,500,000	211,000	7,538,000
Police Force								421,000	1,642,000	2,063,000
Total Expenses troops and Police	\$150,000	\$2,094,000	\$1,374,000	\$1,613,000	\$1,559,000	\$27,609,000	\$26,604,000	\$44,691,000	\$29,103,000	\$194,791,000

TABLE IX—Continued.
Section B: Administrative Expenses.

Designations	3rd Year (1914)	4th Year (1915)	5th Year (1916)	6th Year (1917)	7th Year (1918)	8th Year (1919)	9th Year (1920)	10th Year (1921)	11th Year (1922)	Total
President's Office		\$7,000				\$125,000	\$790,000	\$1,080,000	\$ 167,000	\$2,769,000
Cabinet Office	\$ 9,000			\$ 3,000		313,000	1,245,000	2,331,000	1,319,000	5,220,000
Parliament			\$73,000	86,000	\$10,000	678,000	562,000		693,000	2,102,000
Bureau of Audit	37,000					173,000	157,000	313,000	164,000	844,000
Administrative Court	12,000		18,000			19,000	76,000	129,000	91,000	345,000
Commissions of Censor for Civil and Judicial Officials						4,000	9,000	22,000	22,000	57,000
Commission for the Com- pilation of Ching History				12,000		98,000	62,000	121,000	72,000	365,000
College of Marshals (Chiang Chun Fu)			10,000			381,000	224,000	494,000	567,000	1,676,000
Aeronautic Department and Its Subsidiary Organizations						32,000	260,000	31,000		323,000
Ministry of Foreign Affairs and Diplomatic Expenses			3,000	746,000	20,000	244,000	1,758,000	1,933,000	2,167,000	6,871,000
Ministry of Interior and Its Subsidiary Organizations						863,000	1,140,000	1,166,000	736,000	3,905,000
Ministry of Finance and Its Subsidiary Organizations			33,000	55,000	7,000	166,000	573,000	1,339,700	596,000	2,769,000

TABLE IX—Continued.

Designations	3rd Year (1914)	4th Year (1915)	5th Year (1916)	6th Year (1917)	7th Year (1918)	8th Year (1919)	9th Year (1920)	10th Year (1921)	11th Year (1922)	Total
Ministry of War and Its Subsidiary Organizations						\$ 609,000	\$1,270,000	\$1,977,000	\$1,581,000	\$5,437,000
The General Staff and Its Subsidiary Organizations						357,000	773,000	1,143,000	729,000	3,002,000
Ministry of Navy and Its Subsidiary Organizations						275,000	356,000	580,000	506,000	1,717,000
Ministry of Justice and Its Subsidiary Organizations	\$15,000					606,000	991,000	1,436,000	768,000	3,816,000
Ministry of Education and Its Subsidiary Organizations	2,000		\$ 18,000	\$ 137,004	\$ 6,000	239,000	173,000	422,000	1,758,000	2,755,000
Ministry of Agriculture and Commerce, and Its Subsidiary Organizations			36,000		55,000	567,000	743,000	1,144,000	901,000	3,446,000
Bureau of Mongolian and Tibetan Affairs, and Its Subsidiary Organizations	11,000		80,000	163,000	58,000	329,000	539,000	659,000	370,000	2,209,000
Offices attached to Bureau of Mongolian and Tibetan Affairs						67,000	119,000	26,000	457,000	669,000
Pension for the Ching Household							766,000	1,649,000	1,300,000	3,715,000

TABLE IX—Continued.

Designations	3rd Year (1914)	4th Year (1915)	5th Year (1916)	6th Year (1917)	7th Year (1918)	8th Year (1919)	9th Year (1918)	10th Year (1921)	11th Year (1922)	Total
Pension for the Bannermen				\$ 11,000	\$ 162,000	\$ 1,326,000	\$ 1,405,000	\$ 2,965,000	\$ 2,826,000	\$ 8,695,000
Miscellaneous Extraordinary Expenses	\$ 39,000			99,000	186,000	208,000	180,050	147,000	82,000	941,000
Foreign Employees								28,000	176,000	204,000
Total for Administrative Expenses	\$ 125,000	\$ 7,000	\$ 271,000	\$ 1,312,000	\$ 504,000	\$ 7,679,000	\$ 14,171,000	\$ 21,735,000	\$ 12,040,000	\$ 63,852,000
Grand Total for Military and Adminis- trative Expenses										\$ 198,643,000

The above table represents payments in arrear due the civil and military organizations as they stand at the end of August 1922. To bring the figures thoroughly up to date the additional amounts accumulated since September last will have to be taken into consideration.

The cause of such arrears of payment is not difficult to find when we compare the above table with the following one, which gives the amounts detained or appropriated by the various Provinces.

TABLE X.

Comparative Statement of Revenue Retained and Appropriated by the Provinces, and Arrears in Payment for Military and Administrative Expenses

Designations	Amount
Customs Revenue Specially Authorized	\$ 13,500,000
Salt Revenue Appropriated by Provincial Authorities	53,500,000
Land Tax Retained by Provincial Authorities	61,620,000
Regular and Miscellaneous Duties Retained by Provincial Authorities	50,000,000
Wine and Tobacco Tax Assigned to Provinces	6,690,000
Stamp Duty Assigned to Provinces	1,881,000
Total Amount of Revenue Retained by Provinces	\$187,191,000
Total Amount of Arrears in Payment as per Table IX	\$198,643,000

The figures in the last two columns of the above table show that the amount of revenue retained in the Provinces for one year is almost sufficient to pay off all the arrears of payment accumulated during the last eight years. Not only is the importance of the revenue retained in the Provinces clearly shown, but, by studying these two tables we can also readily see (1) what is the cause of the arrears in payment, (2) where the largest amount of arrears is due, and (3) which sources of national revenue are most affected by the provincial appropriations.

The amount of administrative and military expenses overdue has already reached a staggering figure. If this is allowed to continue unchecked the sums in arrear will steadily increase each day. The only way to find immediate, temporary relief for the present situation is to disregard, for the time being, the payments in arrear accumulated in the past and devise means to have all payments duly met in the future.

Tables showing the unsecured domestic and foreign debts are given below.

TABLE XI.

Secured and Unsecured Domestic and Foreign Debts of China.

A. *Secured Loans*

1. Loans Secured on the Customs Revenue	\$1,410,000,000
2. Loans Secured on the Customs Surplus	250,270,000
Total Amount of Secured Loans	\$ 1,660,270,000

B. *Unsecured Loans*

1. Unsecured Foreign Loans	\$ 266,043,000
2. Unsecured Domestic Obligations	228,481,000
3. Overdue Interest	82,450,000
Total Amount of Unsecured Loans	\$ 576,974,000

C. Principals and Overdue Interest of the

Secured and Unsecured Loans	\$2,237,244,000
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Explanatory Note—The above table shows outstanding loans as they stand at the end of September 1922. Interests have been calculated to the end of the present year (1923).

The domestic and foreign loans which are adequately secured can take care of themselves and hence need not be taken into consideration in the present discussion. The loans, which are now classified as unsecured, are, at the beginning, not entirely without securities, but have become such either on account of the proceeds from such securities having been appropriated for some other purposes or on account of the assigned securities not yielding sufficient amount to meet fully the obligations charged upon them.

That some of the obligations of the Government are well secured while others are left without adequate financial protection is neither satisfactory nor equitable. Those bondholders who are in a less fortunate position are scrambling to get hold of the portion of Customs revenue arising from the enforcement of the new effective 5% tariff or the additional revenue to be derived from the 2½ % surtax.

No matter what the outcome may be, the Government, to maintain its own dignity and protect the national credit, cannot afford to drift along without a definite policy to relieve the situation. Before discussing what policy can or should be adopted it is of course necessary to have the unsecured obligations classified and tabulated.

TABLE XII.

Unsecured Domestic Loans

Designations	Interest	When to be Paid Off	Actual Amount of Issue	Amount Outstanding (As of Sept. 30, 1922)
First Year Bond (6 % Re-organization Bonds)	6 %	24th Year (1935)	\$ 25,600,000	\$ 25,600,000
Eight Year Bond (7 % Re-organization Bonds)	7 %	24th Year (1935)	8,800,000	8,800,000
The "96 Million Loan"	8 %	18th Year (1929)	96,000,000	96,000,000
Total			\$130,400,000	\$130,400,000

TABLE XIII.

**Concise Table of Short Term Loans Approved By the
Commission on the Redemption of Domestic
and Foreign Short Term Loans**

Designations	Amount of Loan or Debt	Amount of 96 Million Bonds used for Redemption	Cash Value of Above Mentioned Bonds at Issue Price (84)	Balance Outstanding
Banks	\$42,103,123	\$27,198,050	\$23,410,453	\$18,692,669
Small Local Banks	10,371,725	9,205,950	7,506,198	2,865,527
Miscellaneous Loans Contract- ed from Modern Banks & Small Local Banks	179,042	112,790	94,743	84,299
Bankers' Association	3,953,777	3,611,820	3,033,928	919,848
Ministry of Education	2,000,000	1,260,000	1,058,400	941,600
Total	\$58,607,667	\$41,388,610	\$35,013,722	\$23,503,943

TABLE XIV.

Concise Table of Loans from Banks and Small Local Banks Classified According to Rate of Interest

Rate of Interest Per Annum	Original Contracted Amount	Outstanding Amount
12 Per Cent	\$ 5,554,500	\$ 4,416,006
18 Per Cent	23,630,000	15,641,740
19.2 Per Cent	10,700,000	10,444,037
20.4 Per Cent	1,302,500	792,654
21.6 Per Cent	6,856,183	4,582,654
24 Per Cent	600,000	400,008
5-6 Per Cent	76,010	28,005
6 Per Cent	80,000	80,000
8 Per Cent	36,000	25,200
9 Per Cent	2,500,000	1,310,000
No Interest	3,089,868	3,089,868
Total	\$54,425,061	\$40,810,182

TABLE XV.

**Treasury Notes Issued to Different Organizations
in lieu of Payment of their Expenditures.**

Rate of Interest	Amount of Actual Issue	Amount Outstanding
5% per annum	\$ 327,000	\$ 327,000
7% per annum	29,020,744	20,007,810
Non interest-bearing	17,409,141	13,432,771
Total	\$46,756,885	\$33,767,581

TABLE XVI.

Unsecured Foreign Loans

Rate of Interest	Kind of Currency	Amount Outstanding at end of Sept. 1922.	Rate of Exchange	Amount in Chinese Dollars
5% Per Annum	Silver Dollars	83,000		\$ 83,000
5% Per Annum	Francs	118,300,000	@\$.143	16,916,900
Total				16,999,900
6% Per Annum	U. S. Gold Dollars	11,145,000	@\$1.90	21,176,964
6% Per Annum	Silver Dollars	80,000		80,000
6% Per Annum	Francs	10,000	@\$.143	1,430
6% Per Annum	Sterling	375,000	@\$9.00	3,375,000
Total				24,633,394
7% Per Annum	Francs	38,686,269	@\$.143	5,532,136
7% Per Annum	Yen	20,083,000	@\$.90	18,074,929
Total				23,607,064
7½% Per Annum	Yen	40,000,000	@\$.90	36,000,000
Total				36,000,000
8% Per Annum	Sterling	2,606,000	@\$9.00	23,457,051
8% Per Annum	Kf. Taels	213,000	@\$1.45	308,850
8% Per Annum	Francs	562,245	@\$.143	80,401
8% Per Annum	Yen	56,509,341	@\$.90	50,858,406
8% Per Annum	U. S. Gold Dollars	1,122,925	@\$1.90	\$ 2,133,557

TABLE XVI—Continued.

Rate of Interest	Kind of Currency	Amount Outstanding at end of Sept. 1922.	Rate of Exchange	Amount in Chinese Dollars
8% Per Annum	Silver Dollars	91,449		\$ 91,449
Total				76,929,714
9% Per Annum	Francs	4,613,210	@\$.143	661,119
9% Per Annum	Sterling	22,967	@\$9.00	206,703
Total				867,822
10% Per Annum	Francs	2,500,000	@\$.143	357,500
10% Per Annum	Tientsin Taels	1,319,287	@\$1.50	1,978,932
10% Per Annum	Yen	6,512,990	@\$.90	5,861,691
10% Per Annum	Silver Dollars	1,188,316		1,188,416
10% Per Annum	Sterling	50,000	@\$9.00	456,000
Total				9,836,539
12% Per Annum	Silver Dollars	281,327		281,327
12% Per Annum	Silver Dollars	400,000		400,000
Total				681,327
14.4% Per Annum	Yen	800,000	@\$.90	720,000
14.4% Per Annum	Silver Dollars	787,904		787,904
Total				1,507,904
15.6% Per Annum	Yen	1,125,000	@\$.900	1,012,500
Total				\$ 1,012,500

TABLE XVI—Continued.

Rate of Interest	Kind of Currency	Amount Outstanding at end of Sept. 1922.	Rate of Exchange	Amount in Chinese Dollars
16.8% Per Annum	Yen	51,890	@\$.90	\$ 46,701
Total				46,701
No Interest	Francs	239,600	@\$.143	34,262
No Interest	Silver Dollars	152,772		152,772
No Interest	Yen	37,186,313	@\$.90	33,467,681
No Interest	Yen	30,000	@\$.90	27,000
No Interest	Sterling	81,776	@\$9.00	735,984
No Interest	U. S. Gold Dollars	70,000	@\$1.90	133,000
No Interest	Silver Dollars	1,200,000		1,200,000
Total				35,750,699
19.2% Per Annum	Silver Dollars	200,000		200,000
Total				200,000
76% Per Annum	Yen	107,311	@\$.90	96,579
Total				69,579
Grand Total				\$228,170,142

Explanatory Note—In all cases where the original terms of interest were on a monthly or daily basis they have been reduced to annual basis.

TABLE XVII.

Overdue Austrian Laons.

Designations	Annual Interest	Currency	Amount Overdue	Equivalent in Chinese Dollars at \$9 per £
1st, 2nd, and 3rd Arnold Karberg & Co. Loans	6% Per Annum	Sterling	£ 620,000	\$ 4,380,000
1st, 2nd, and 3rd Austrian Loans	6% Per Annum	Sterling	2,467,000	22,203,000
Austrian Loans Extension Loan	8% Per Annum	Sterling	1,233,000	10,694,000
Austrian Loans Interest Deferred	9% Per Annum	Sterling	66,314	596,826
Total		Sterling	£4,386,314	\$37,873,826

TABLE XVIII.

General Statement of Unsecured Loans.

Domestic Loans (Table XII)	\$ 130,400,000
Short Term Loans Approved by the Commission on the Redemption of Domestic and Foreign Short Term Loans (Table XIII)	23,504,000
Short Term Loans from Modern Banks and Small Local Banks (Table XIV)	40,810,000
Treasury Notes issued to Different Organizations in lieu of Payment (Table XV)	33,767,000
Unsecured Foreign Loans (Table XVI)	228,170,000
Overdue Austrian Loan (Table XVII)	37,874,000
Approximate Amount of Overdue Interest up to the end of 1923	82,450,000
Total	\$576,975,000

According to Table XVIII the total amount of China's unsecured domestic and foreign loan obligations, with interest calculated to the end of the present year, is approximately \$576,970,000. Of these, some are already overdue, others will soon mature while still others have considerable time to run yet. To meet all these obligations, and pay off the principals and interests as they fall due, in accordance with the original terms of the agreements, is now admittedly impossible. It is perhaps even difficult to negotiate for an extension of time. But even assuming that this can be done, the compounding of heavy interest will be an unbearable drain upon the national treasury.

Defaults in payment of loan obligations have already aroused considerable agitation and apprehension. The Diplomatic Corps have addressed a note to the Government protesting against using all the Customs Surplus for the Service of the Consolidated Domestic Loans.

Foreign creditors are pressing for payment and the whole nation is stirred up and full of misgiving. Although Sir Francis Algen, the Inspector General of Customs, has submitted a memorandum on Using the Customs Surplus for the Consolidated Loan Services and Monsieur G. Padoux has drawn up a carefully worked out scheme for the Financial Reconstruction of China and the Consolidation of China's Present Indebtedness, * these schemes, admirable as they are and in so far as they go, are limited in their scope, for they both only deal with China's loan obligations. The problem of administrative expenses and the question of providing funds for carrying out a policy for the unification of the country and disbandment of troops are all left untouched or unsolved.

The additional Customs Surplus from the enforcement of the effective 5% tariff has been earmarked long ago. Without a comprehensive scheme for a fundamental readjustment, even after the solution of the loan problem, when the Salt Surplus, the Stamp Duty, and the Wine and Tobacco Taxes are ostensibly available for the purposes of the Central Government, they will more likely be

* Note—Both of these memoranda were submitted to the National Commission for Study of Financial Problems when the author was Chairman of that Commission.

exhausted by the insatiable demands of the militarists, without in any way contributing substantially to the improvement of the financial situation. Herein perhaps may be found an explanation why the schemes outlined by Sir Francis Aglen and M. Padoux are not so enthusiastically and vigorously pushed forward.

While the Government is badly in need of administrative expenses the nation faces a budget which can in no way be balanced, and while funds are urgently needed to carry into effect the disbandment of troops there is not enough money to pay off the existing loan obligations. Under such conditions it is hardly possible to make a suggestion which is a perfect remedy, free from every objection. Yet the urgency of the situation requires that something must be done, otherwise things will continue to drift steadily from bad to worse.

For an adequate remedy comprehensive enough to work a fundamental solution of the Chinese financial problem as a whole the best thing to be done is the flotation of a new loan of \$1,200,000,000 with the increased revenue from the enforcement of the $2\frac{1}{2}\%$ surtax as security, devoting the proceeds, first of all, to the consolidation of the domestic and foreign debts, and then to provisions for administrative expenses and the disbandment of troops.

In order that everybody may be convinced of the necessity of the policy outlined above an announcement should be made to the people that a loan on the $2\frac{1}{2}\%$ surtax will not in any way interfere with the revenue to be derived from the $12\frac{1}{2}\%$ import duty which will be used to compensate the abolition of likin. To Parliament the plan should be submitted with detailed explanations as to the object of the loan, the amount of principal, the rate of interest and the purposes to which the proceeds will be devoted. The foreign Governments should then be approached, through the usual diplomatic channel, with the request that the Special Tariff Conference be forthwith convened to authorize the levy of the $2\frac{1}{2}\%$ surtax. The Government should at the same time pledge that the proceeds of the surtax will be devoted to providing the sinking fund for a new loan to consolidate all existing unsecured domestic and foreign loans, to supply the urgently needed administrative expenses and to furnish the necessary funds for

carrying out the disbandment of troops. The application of the proceeds of the surtax is directly in line with the spirit and purpose of the Washington Conference. When it can be demonstrated that the scheme is a practical one, that it is of benefit to the general situation and that it will lay the foundation for the financial reconstruction and resuscitation of China, it will not be difficult to secure general approval and support for the suggested plan. The sooner that such scheme can be put in force the better will it be for the stability of the country.

The objection may be raised that the floating of a new loan, especially one that involves such an enormous sum of \$1,200,000,000, will likely meet with violent opposition. In reply it may be said that whether a loan proposal should be opposed or supported should be determined not by the amount of the loan but by object and effect of the loan. If it is simply a measure to tide the administration over some temporary financial difficulty, it is to be opposed no matter how small the amount is. But if it will work a fundamental solution of the financial problem, it should be supported no matter how large the amount is. The financial situation of China has reached a very critical stage. Unless something really comprehensive, as distinguished from a temporary measure, only affording temporary relief or calculated to meet local needs, be done our national life itself will be endangered. It is therefore hoped that the public will appreciate the situation and realize the advisability of an adjustment on such a big scale.

The next point to be taken up is the question of security for such a loan. There is already charged upon the Customs Revenue and Surplus a sum of \$1,665,000,000 for the payment of the principals and interests of the secured domestic and foreign loans, the payments spreading over a period of years ending the 49th year of the Republic (1960). If we aim at using the proceeds of the surtax for the sinking fund of a new loan we ought to first find out how does the Customs Revenue stand with reference to the charges already placed upon it. The following table is given to show what are the existing annual charges upon the Customs Revenue and Surplus for the payment of the domestic and foreign loans secured upon them.

TABLE XIX.

**Charges upon the Customs Revenue and Surplus for the Redemption
of Foreign and Domestic Loans**

Years	Charges on the Revenue for the Redemption of Foreign Loans	Charges on the Surplus for the Redemption of Domestic Loans	Total
12th Year (1923)	\$58,030,000	\$36,220,000	\$94,250,000
13th Year (1924)	59,450,000	32,050,000	91,500,000
14th Year (1925)	59,570,000	29,130,000	88,700,000
15th Year (1926)	59,500,000	31,000,000	90,500,000
16th Year (1927)	59,500,000	24,650,000	84,150,000
17th Year (1928)	59,500,000	26,000,000	85,500,000
18th Year (1929)	59,500,000	21,600,000	81,100,000
19th Year (1930)	59,500,000	17,500,000	77,000,000
20th Year (1931)	59,500,000	6,500,000	66,000,000
21st Year (1932)	59,000,000	6,000,000	65,000,000
22nd Year (1933)	50,000,000	5,500,000	55,500,000
23rd Year (1934)	50,000,000	5,500,000	55,500,000
24th Year (1935)	50,000,000	5,000,000	55,000,000
25th Year (1936)	50,000,000	5,000,000	55,000,000
26th Year (1937)	50,000,000	4,500,000	54,500,000
27th Year (1938)	50,000,000		50,000,000
28th Year (1939)	50,000,000		50,000,000
29th Year (1940)	50,000,000		50,000,000
30th Year (1941)	41,500,000		41,500,000
31st Year (1942)	41,500,000		41,500,000
32nd Year (1943)	41,500,000		41,500,000

TABLE XIX—*Continued.*

Years	Charges on the Revenue for the Redemption of Foreign Loans	Charges on the Surplus for the Redemption of Domestic Loans	Total
33rd Year (1944)	\$33,500,000		\$33,500,000
34th Year (1945)	33,500,000		33,500,000
35th Year (1946)	15,000,000		15,000,000
36th Year (1947)	15,000,000		15,000,000
37th Year (1948)	15,000,000		15,000,000
38th Year (1949)	15,000,000		15,000,000
39th Year (1950)	15,000,000		15,000,000
40th Year (1951)	15,000,000		15,000,000
41st Year (1952)	15,000,000		15,000,000
42nd Year (1953)	15,000,000		15,000,000
43rd Year (1954)	15,000,000		15,000,000
44th Year (1955)	15,000,000		15,000,000
45th Year (1956)	15,000,000		15,000,000
46th Year (1957)	15,000,000		15,000,000
47th Year (1958)	15,000,000		15,000,000
48th Year (1959)	15,000,000		15,000,000
49th Year (1960)	15,000,000		15,000,000

Explanatory Note—Under Foreign Loans is included the total outstanding amount of Boxer Indemnity.

After finding out the annual charges upon the Customs Receipts for the service of the foreign and domestic loan obligations our next subject of inquiry is the total amount of Customs Revenue which can be realized on the basis of the effective 5% and the increase that will accrue to it through the putting into effect of the 2½% surtax so that by striking the balance between the total receipts and total charges we may find out how much will be available each year for the service of the new loan under consideration.

The total amount of the Customs Revenue for the year 1922 was about \$77,000,000. Taking that as a basis let us figure out the estimated amount of revenue for the year 1923. First, adding to the above mentioned sum of \$77,000,000 a sum of \$8,000,000 as the increase of revenue due to the putting into force of the new effective 5% tariff we get a sum of \$85,000,000 for the present year. To this sum may be also added the increase of revenue due to the growth of trade which has been going on at the rate of more than \$3,000,000 per year. Even taking the conservative estimate of \$3,000,000, it will bring the Customs receipts for this year to \$88,000,000.

Now assuming that the Special Tariff Conference provided for by the Washington Treaty will take place sometime this year and the surtax can be put into force by March 1924, the total Customs revenue for next year should considerably exceed the amount collected for this year. First, taking the estimate for 1923 (\$88,000,000) as the starting point, there should be added a sum of \$2,000,000 for increase due to the effective 5% from January to March. Secondly, there is the increase of revenue due to the putting into force of the surtax from April 1924 to the end of the year. Theoretically this should be calculated at half the amount receivable under the 5% tariff, or \$42,500,000. When, however, the surtax is first put into force it may not bring in the amount expected. Let us therefore take the very conservative estimate and allow only \$28,000,000 as the amount of increase due to the surtax. These two items of increase, plus an allowance of \$3,000,000 for the normal growth of trade, will bring the total Customs Revenue for the year 1924 to \$121,000,000. In the same way the Customs Revenue for succeeding years can also be calculated.

It should be noted that the 2½% surtax is authorized to be imposed before the abolition of likin. When the likin is abolished the tariff will be raised to 12½%. So the proceeds from the surtax can be disposed of without reference to the abolition of likin, and such disposal will not retard the progress of its abolition.

The following is a table showing estimated annual Customs Revenue, the charges upon the Revenue and Surplus, and the annual balance available for the service of the New Loan.

TABLE XX.

**Customs Surplus After Meeting Existing Charges for
Foreign and Domestic Obligations.**

Years	Estimated Customs Revenue	Charges of Foreign and Domestic Loan Obligations	Deficit	Surplus Available for Sinking Fund of New Loan
12th Year (1923)	\$38,000,000	\$94,250,000	\$6,250,000	
13th Year (1924)	121,000,000	91,500,000		\$ 29,500,000
14th Year (1925)	124,000,000	88,700,000		35,300,000
15th Year (1926)	127,000,000	90,500,000		36,500,000
16th Year (1927)	130,000,000	84,150,000		45,850,000
17th Year (1928)	132,000,000	85,500,000		46,500,000
18th Year (1929)	134,000,000	81,100,000		52,900,000
19th Year (1930)	136,000,000	77,000,000		59,000,000
20th Year (1931)	138,000,000	66,000,000		72,000,000
21st Year (1932)	140,000,000	65,000,000		75,000,000
22nd Year (1933)	142,000,000	55,500,000		86,500,000
23rd Year (1934)	144,000,000	55,500,000		88,500,000
24th Year (1935)	146,000,000	55,000,000		91,000,000
25th Year (1936)	148,000,000	55,000,000		93,000,000
26th Year (1937)	150,000,000	54,500,000		95,500,000
27th Year (1938)	150,000,000	50,000,000		100,000,000
28th Year (1939)	150,000,000	50,000,000		100,000,000
29th Year (1940)	150,000,000	50,000,000		100,000,000

TABLE XX—*Continued.*

Years	Total Customs Revenue	Charges of Foreign and Domestic Loan Obligations	Deficit	Surplus Available for Sinking Fund of New Loan
30th Year (1941)	\$150,000,000	\$41,500,000		\$108,500,000
31st Year (1942)	150,000,000	41,500,000		108,500,000
32nd Year (1943)	150,000,000	41,500,000		108,500,000
33rd Year (1944)	150,000,000	33,500,000		116,500,000
34th Year (1945)	150,000,000	33,500,000		116,500,000
35th Year (1946)	150,000,000	15,000,000		135,000,000
36th Year (1947)	150,000,000	15,000,000		135,000,000
37th Year (1948)	150,000,000	15,000,000		135,000,000
38th Year (1949)	150,000,000	15,000,000		135,000,000
39th Year (1950)	150,000,000	15,000,000		135,000,000
40th Year (1951)	150,000,000	15,000,000		135,000,000
41st Year (1952)	150,000,000	15,000,000		135,000,000
42nd Year (1953)	150,000,000	15,000,000		135,000,000
43rd Year (1954)	150,000,000	15,000,000		135,000,000
44th Year (1955)	150,000,000	15,000,000		135,000,000
45th Year (1956)	150,000,000	15,000,000		135,000,000
46th Year (1957)	150,000,000	15,000,000		135,000,000
47th Year (1958)	150,000,000	15,000,000		135,000,000
48th Year (1959)	150,000,000	15,000,000		135,000,000
49th Year (1960)	150,000,000	15,000,000		135,000,000

On the basis of the above table an amortization schedule for the new loan can be drawn up.

TABLE XXI.

Amortization Table for 6% Loan of \$1,200,000,000

Redeemable in Thirty Years From the Surplus of the Customs Revenue.

Years	Customs Surplus Available for Ser- vice of New Loan	Annual Interest (to be paid semi-annually)	Redemption of Principal	Deficit which is to be Met out of Funds Re- served from New Loan.	Net Balance Available to Government After Paying all Charges
12th Year (1923)		\$18,000,000		\$18,000,000	
13th Year (1924)	\$29,500,000	72,000,000		42,500,000	
14th Year (1925)	35,300,000	72,000,000		36,700,000	
15th Year (1926)	36,500,000	72,000,000		35,500,000	
16th Year (1927)	45,850,000	72,000,000		26,150,000	
17th Year (1928)	46,500,000	72,000,000		25,500,000	
18th Year (1929)	52,900,000	72,000,000		19,100,000	
19th Year (1930)	59,000,000	72,000,000		13,000,000	
20th Year (1931)	72,000,000	72,000,000			
21st Year (1932)	75,000,000	72,000,000			\$3,000,000
22nd Year (1933)	86,500,000	71,850,000	\$10,000,000		4,650,000
23rd Year (1934)	88,500,000	71,160,000	16,000,000		1,340,000
24th Year (1935)	91,000,000	70,110,000	22,000,000	1,110,000	
25th Year (1936)	93,000,000	68,790,000	22,000,000		2,210,000

TABLE XXI—Continued.

Years	Customs Surplus Available for Ser- vice of New Loan	Annual Interest (to be paid semi-annually)	Redemption of Principal	Deficit which is to be Met out of Funds Re- served from New Loan.	Net Balance Available to Government After Paying all Charges
26th Year (1939)	\$ 95,500,000	\$ 67,380,000	\$ 28,000,000		\$ 120,000
27th Year (1938)	100,000,000	65,610,000	34,000,000		390,000
28th Year (1939)	100,000,000	63,570,000	34,000,000		2,430,000
29th Year (1940)	100,000,000	61,530,000	34,000,000		4,470,000
30th Year (1941)	108,500,000	59,310,000	46,000,000		3,190,000
31st Year (1942)	108,500,000	56,460,000	52,000,000		40,000
32nd Year (1943)	108,500,000	53,340,000	52,000,000		3,160,000
33rd Year (1944)	116,500,000	50,040,000	64,000,000		2,460,000
34th Year (1945)	116,500,000	46,110,000	70,000,000		390,000
35th Year (1946)	135,000,000	41,640,000	88,000,000		5,360,000
36th Year (1947)	135,000,000	36,270,000	94,000,000		4,730,000
37th Year (1948)	135,000,000	30,580,000	100,000,000		4,420,000
38th Year (1949)	135,000,000	24,390,000	110,000,000		610,000
39th Year (1950)	135,000,000	17,790,000	110,000,000		7,210,000
40th Year (1951)	135,000,000	11,040,000	120,000,000		3,960,000
41st Year (1952)	135,000,000	3,840,000	94,000,000		37,160,000
Total	\$2,710,550,000	\$1,636,810,000	\$1,200,000,000	\$217,560,000	\$91,300,000

The reasons why the Customs Revenue has been singled out for the service of the new loan can be enumerated as follows: —

- (1) Accurate statistics of Customs Revenue are easily available and the Revenue itself is so reliable as to make it the most acceptable security to foreign and domestic bondholders.
- (2) Many of the loans are already secured upon contingent surpluses of the Revenue.
- (3) Even if China does not at present assign the Customs Surplus for the service of the loan, it is very likely that foreign nations will put forth such demand at the time of the Special Tariff Conference.
- (4) Since the main object of the reorganization or consolidation scheme is to preserve national credit, it is but natural that the most reliable source of revenue should be assigned as security.
- (5) By assigning a single source of revenue as security all the other sources can be left to the free disposal and management of the Government.

In view of the above five considerations it seems best to single out the Customs Surplus as security for the new loan.

As to the details of the loan they may be outlined as follows. The amount of the loan is to be \$1,200,000,000, as a smaller amount will not be sufficient for the purposes in view. The annual rate of interest is to be 6%. The rate of interest is comparatively low, but the new loan is well secured and holders of these bonds do not expose themselves to the risk of uncertainty which the holders of unsecured bonds have to stand. We only need to look over the rates of interest of the loans secured on the Customs Surplus to see that well secured loans need not pay high rate of interest. The terms of the loan should not be too long, say not more than thirty years. Let the payment of interest commence with this year and the redemption of principal begin with the year 1932, the entire loan to be paid off in thirty years. The proceeds of the loan is to

be devoted entirely to (1) the consolidation of the unsecured foreign and domestic loans, (2) the requirements of administrative expenses for one year, and (3) the disbandment of troops and the unification of the country.

As to the supervision of the sinking fund and the proceeds from the loan a Special Commission should be organized to take charge of them. The members of the Commission shall be composed of parties directly concerned in the new loan. The organization of the Commission is outlined below.

TABLE XXII.

Organization of the Loan Commission to Take Charge of the Sinking Fund and the Loan Proceeds.

One Chairman	To be elected by the Commission
One Vice-Chairman	
Members of Commission	Creditors' Representatives, Members of the Cabinet, Bankers, Inspector General of Customs, Associated Chamber of Commerce, Speaker of the Parliament
Qualification of Members	
Name of Commission	Loan Commission in Charge of the Sinking Fund and the Loan Proceeds
Duration of the Commission	To exist until duties fully and completely discharged
Location of the Commission	Peking

The Commission outlined above should be organized simultaneously with the conclusion of the loan. No part of the proceeds of the loan can be touched without the written approval of this Commission. Whenever the proceeds of the loan are to be drawn upon, the Ministry of Finance should submit the proposal to the Cabinet, which should, if it receives its approval, forward it to the Parliament for approval before sending to the Commission for written authorization to draw upon the fund. In this way any possibility of misappropriating any part of the fund is almost entirely eliminated.

As to questions of discount of issue and the custody of the reserved fund for interest these matters can be discussed with the creditors. When they are convinced that the exchange of well secured bonds, guaranteed with the punctual payment of interest and principal, for the unsecured bonds they hold now, is in their interest it will not be difficult to stir them up to support the scheme and to induce them to accept new bonds at very little discount. In fixing the exact rate of discount consideration, of course, must be taken of the rates of interests of the original bonds.

The outstanding unsecured debts are therefore classified according to their rates of interest and tabulated below.

TABLE XXIII.

Outstanding Unsecured Loans Classified According to their Rates of Interest.

Interest per Annum	Table XII	Table XIII	Table XIV	Table XV	Table XVI	Table XVII	Total
5%			\$ 28,000	\$ 327,000	\$17,000,000		\$17,355,000
6%	\$25,600,000		80,000	20,008,000	24,633,000	\$26,583,000	95,904,000
7%	8,800,000				23,607,000		32,407,000
7.6%					36,000,000		36,000,000
8%	96,000,000	\$23,504,000	25,000		76,930,000	10,694,000	207,153,000
9%			1,310,000		868,000	597,000	2,775,000
10%					9,836,000		9,836,000
12%			4,416,000		681,000		5,097,000
14%					1,508,000		1,508,000
15.6%					1,013,000		1,013,000
16.3%					47,000		47,000
18%			15,642,000				15,642,000
19.2%			10,444,000		200,000		10,644,000
20.4%			793,000				793,000
21.6%			4,583,000				4,583,000
24%			400,000				400,000
7.6%					97,000		97,000
No Interest			3,089,000	13,432,000	35,750,000		52,271,000
Total	\$130,400,000	\$23,504,000	\$40,810,000	\$33,767,000	\$228,170,000	\$37,874,000	\$494,525,000

Explanatory Note—Interests originally on a monthly or daily basis have all been reduced to the annual basis.

When we take an average of the rates of interest enumerated above it comes to 16% per annum. However, more than eighty per cent of the total amount of outstanding loans carry interest at less than 8% per annum. In view of the facts that the short term loans consolidated and redeemed by the rather poorly secured "96 Million Bonds" all carried over 8% interest and that the "96 Million Bonds" were issued at 84, it can be reasonably expected that the new 6% consolidated bonds, which are well secured, can be issued at considerably above 80. Assuming that these new bonds can be issued at an average of 90, i. e. giving \$100 face value of the new bonds for \$90 face value of the old bonds, the total amount of consolidated bonds to be issued will be \$644,000,000.

According to Table XXI the Customs Surplus will be deficient, especially during the first eight years, for the service of this New Consolidated Loan. The total of such deficiency amounts to \$218,000,000. To safeguard the security of this new loan a sum of \$218,000,000 should be set aside from the proceeds of the consolidated loan and be entrusted to the Loan Commission. If the Customs Revenue should exceed our estimates and there is sufficient surplus to meet the payment of interest for any of those years when deficiency is anticipated, then the amount reserved can be held over for future use. But in case the deficiency does happen then there will still be ample fund in reserve for the payment of the interest on these bonds.

The objection may be raised that as some outstanding loans are already overdue or about to mature, while others have considerable time to run yet it may be difficult to enforce a uniform system upon them. In reply it may be said that while all this may be true, we must bear in mind, first of all, that all outstanding loans, whether matured or about to mature, will all have to be extended in any case. Between an uncertainty of payment or rather certainty of non-payment when the loans mature under the present arrangement, and the certainty of payment whenever the bonds are drawn, though it may possibly mean a little delay according to the original terms, it will not be difficult to show that the latter arrangement is preferable to the creditors.

The question of currency also presents some difficulty. The outstanding loans are of various currencies: some are in terms of the English pound, some are in terms of the American dollar, and still others in French francs, etc. etc. How to reduce all to the Chinese currency is admittedly not an easy task, but by frank discussion and open-minded negotiation with the creditors it is within reason to hope that an equitable arrangement, fair and just to both parties, may be found and mutually agreed upon.

The proceeds of the new loan shall be devoted to the following purposes and be apportioned according to the following schedule.

TABLE XXIV.

Apportionment of the Loan.

1. New Consolidated Loan Bonds to be issued for the Redemption of Outstanding Unsecured Loans, with interest calculated to the end of the present year (1923).....	\$ 644,000,000
2. Amount to be deducted at the time of the issue of the New Bonds and to be held in reserve to guarantee the punctual payment of interest.....	\$ 218,000,000
3. Administrative Expenses from July 1923 to June 1924.....	\$ 92,000,000
4. Funds for effecting the Unification of the Country and the Disbandment of Troops.....	\$ 250,000,000
Total	<u>\$1,204,000,000</u>

If the foregoing scheme is adopted not only are the outstanding loans taken care of but the administrative expenses of the Government are temporarily provided with. Moreover, means will have been provided for the carrying out of the unification of the country and the disbandment of troops. It can also be expected that the national revenue collected in the Provinces can be duly forwarded to Peking. With the financial entanglement thus straightened out the Government can turn its attention to a programme of constructive policy.

Indirectly this will facilitate the finding of an appropriate solution for the Communication Loans. If the revenues under the control of the Ministry of Communications can be preserved intact, without being interfered with to meet the ordinary administrative expenses of the Government, the Communication Loans can amply take care of themselves. It will thus be seen that a solution of the unsecured loans will incidently also work out or facilitate the solution for the Communication Loans.

The question may also be raised as to the sufficiency or insufficiency of an appropriation of \$250,000,000 for the purpose of the disbandment of troops. As the exact number of troops and the exact amount of arrears due to the army are not known we can only make out our estimate on the basis of the nominal figure of 1,200,000 men. Assuming that 400,000 men will be disbanded out of the total of 1,200,000 and assuming again that these soldiers are all paid at the rate of \$10.00 per month and the arrears are all of one year, an amount of \$192,000, 000 is required to clear up all the arrears. If these soldiers be paid two months bonus at the time of the disbandment an additional amount of \$32,000, 000 will be required. This would leave a balance of \$20,000,000 for contingent extraordinary expenses and \$6,000,000 for administrative expenses in connection with disbandment of troops. On the basis of the above figures the estimate seems to be within reasonable bounds.

By practice of economy the amount of \$92,000,000 reserved for administrative expenses for one year may be sufficient for more than one year. Moreover, with administrative expenses for one year definitely secured, time will be afforded for the carrying out of financial reforms, such as the reorganization of the

wine and tobacco taxes, etc. etc. All such measures may be expected to bring in more revenue. For example, it has been shown in my monograph on the Reorganization of the Salt Gabelle that, upon the introduction of certain reforms, hope may be entertained for increasing the revenue as much as \$60,000,000 per year.

In short, the present situation, though critical, is not hopeless. Through conscientious and patriotic efforts, solutions may be found for existing difficulties and the country be placed upon a solid and sound basis, both financially and politically.